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TREASURY FOR LKOHLE

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SUBJECT: FINANCE MINISTER ON DRC'S OVERSPENDING AND IMF
PROGRAM

Classified By: EconCouns Greg Groth for reasons 1.4 b and d

¶1. (C) At a May 30 meeting with DRC Finance Minister Marco Banguli, Ambassador delivered a tough message against GDRC overspending and said that, after the GDRC's first priority of holding elections, the main objectives for the remaining period of the Transition government should be the security sector and budgetary fiscal discipline. The Ambassador noted that only by inaugurating a democratically elected government and reining in excess and non-priority government spending could the DRC re-establish a formal IMF program, a very important factor for the future of the country.

¶2. (C) Minister Banguli agreed, but added that it is difficult to convince others in the government of the importance of fiscal discipline. He encouraged the Ambassador to convey this message to his Ministerial colleagues, observing that such a message from the U.S. Ambassador would be viewed as more credible than the Minister's. Banguli noted that there were large over-budget expenditures in April, resulting in the slight depreciation of the Congolese franc and increase in inflation observed in May. He said, however, that May monthly expenditures had been more in line with budget and predicted that the quarterly situation for the April - June would look much better.

Security Sector Expenses

¶3. (C) Banguli said that the security sector would require additional government expenditures during the electoral period, claiming that the 2006 budget had not made provisions for these expenses. He complained that the international community was pushing elections, security sector, and other priorities without providing adequate funding, while at the same time asking the GDRC to remain within budget. The Ambassador responded that he could not judge the adequacy of GDRC resources to accomplish priority tasks, as that information was not available. Clearly funds were being disbursed by the central system, for example military salary payments, but were not reaching the intended targets. Donors have been requesting a meeting to discuss Ministry of Defense spending to examine use of funds and obtain greater transparency, but despite agreement in principle, no such session has been held to-date. The international community is providing substantial funding support for elections, the security sector, and other areas, but if the GDRC has a case to present that funding is inadequate, it needs to bolster its own credibility by taking action to correct waste or graft, and provide donors with more information.

Public Finances

14. (C) Banguli agreed that government expenditures must be prioritized, while remaining within the 2006 budget. He claimed that civil servant salaries and debt payments constitute 85 percent of government expenditures and that these costs are fixed. (Note: Of the approximately USD 79 million budgeted monthly from the GDRC's domestic revenues, approximately USD 32 million is budgeted for civil servant salaries and USD 26 million for public debt, leaving only USD 21 million per month to spend on all other categories combined. End note.) He agreed that improvements were needed in what GDRC officials call the "quality" of expenditures, which includes waste or theft of funds. He did note that in another major problem area, civil service reform and salaries, steps have been taken that would show significant improvements "very soon." (Note: the GDRC is completing a nationwide census of civil servants that will hopefully remove many ghost workers from the rolls, and it is also installing a more automated payroll system. End note.)

Debt Repayment Issues

15. (C) With the suspension of the Fund's PRGF in March, Paris Club interim debt relief for the DRC also came to an end. Banguli said he understood, based partly upon discussions he had in Washington during the spring IMF/WB meetings and with the Paris Club Secretary General, that an IMF Staff Monitored Program (SMP) for the DRC, still not officially in place, would suffice for Paris Club creditors to continue to extend some form of interim debt relief. Ambassador noted that

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without a PRGF, debt relief was not automatic, and that payments would soon start falling due. The Ambassador encouraged Banguli to seek greater clarity from Paris Club officials regarding the current or likely Paris Club position regarding DRC bilateral debt. Banguli stated that the DRC would be unable to make new debt payments in any case, since there was nothing in the budget.

16. (C) Comment. Minister Banguli understands the very difficult position that the DRC is in following the lapse of the PRGF, but his Ministry is unable to impose fiscal discipline on other ministries and GDRC institutions. That said, his own faction in the Transition government (President Kabila's PPRD) is as culpable as the other factions in chronic overspending. The GDRC now needs to get the SMP approved and establish a credible track record so that the DRC has at least a chance of renegotiating a new program before the end of the year. Otherwise, the loss of outside budget support totaling nearly USD 169 million, nearly ten percent of the entire budget, will make a bad situation much worse. Establishing the needed budget discipline, however, is a tall order for a lame-duck Transition government experiencing ever weakening authority as the country moves toward elections. The fact that a new post-election government may not be formed until late this year will exacerbate the problem as it presumably will take some time to get up and running itself, even as the clock runs for the remaining 2006 fiscal year and needed preparations of the 2007 budget. We will continue to press the message regarding fiscal controls, and urge other resident Heads of Mission of key DRC partner countries to do likewise. End comment.
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